GRAND UNION

1961 Annual Report

GRAND UNION SUPERMARKETS

Our Eighty-ninth Year

THE GRAND UNION COMPANY
Annual Report

for the fiscal year ended March 3, 1962

CONTENTS

Financial Highlights

The Grand Union Company and its Subsidiaries

	1961	1960
NET SALES	**$640,621,586**	**$604,273,503**
EARNINGS BEFORE INCOME TAXES	**14,582,507**	**14,470,898**
U. S. AND CANADIAN INCOME TAXES	**7,430,000**	**7,380,000**
NET EARNINGS	**7,152,507**	**7,090,898**
EARNINGS PER COMMON SHARE*	**1.51**	**1.53**
INVENTORIES	**52,043,372**	**50,574,536**
NUMBER OF COMMON STOCKHOLDERS	**10,789**	**10,539**

* Based on the average number of shares outstanding during the respective periods. The earnings per share for 1960 have been adjusted for the 3% common stock dividend paid May 26, 1961. Earnings per share are stated after dividends paid on the 4½% cumulative preferred stock.

From the President's Desk

To Stockholders of The Grand Union Company:

Your company strengthened its position as one of the nation's leading food retailers during fiscal 1961, its eighty-ninth year of operation.

A new sales record of $640,621,586 was established during the 53-week 1961 fiscal year which ended March 3, 1962. This surpasses the previous high of $604,273,503 in sales achieved during the 52-week 1960 fiscal year.

Net income during fiscal 1961 was $7,152,507, as compared with $7,090,898 in fiscal 1960. The 1961 income was the equivalent of $1.51 per share of common stock, based on the average number of shares outstanding during the year. Per share income for the 1960 fiscal year equaled $1.53, based on the average number of common shares outstanding during that year, adjusted for the 3% stock dividend paid May 26, 1961.

Earnings for the year were the second highest in the company's history. This is particularly impressive when considered in the light of increasing costs that are depressing profit structures in many areas of American industry. Grand Union's performance during fiscal 1961 indicates its ability to generate the greater productive efficiency needed to meet successfully the challenge of these rising costs.

After the close of the 1961 fiscal year, the Board of Directors at a meeting on April 13, 1962, voted a 3% stock dividend and a regular quarterly cash dividend of 15¢ per share on the company's common stock, both payable on May 25, 1962 to stockholders of record April 23, 1962.

FORTY-NINE NEW STORES PLANNED IN 1962

Twenty-eight new supermarkets were opened and two acquired during fiscal 1961. Nineteen of the new stores were replacements of existing smaller stores in communities in which Grand Union had been operating for some time. Forty-seven other stores were enlarged or renovated. Eight older markets were closed and not replaced.

We began fiscal 1961 with 472 stores. There were 475 in operation at the close of the year. While the net gain in the number of stores was small, there was a significant increase in the size of the twenty-eight new supermarkets constructed. Sales areas in the new stores were, on the average, 60% greater than in those replaced and closed during the year.

Our program of updating shopping facilities in communities where Grand Union has cultivated a loyal customer following is one of the soundest methods of insuring continued patronage.

An ambitious development program is planned during fiscal 1962. It calls for the opening of 49 new stores, including 3 Grand-Way Discount Centers. An enlargement-renovation program similar to last year's is also planned.

Our replacement program in 1961 was unusually extensive. As a result, only five of the projected 49 stores to be opened during the current year will be replacements.

The 46 new Grand Union supermarkets to be opened in 1962 will total 553,636 square feet, as compared to the total of 278,091 square feet represented by the 28 supermarkets opened during 1961. In addition, the total square footage of the three Grand-Ways to be opened this year will be 281,175.

DISCOUNT CENTER DEVELOPMENT CONTINUES

One-stop shopping for food and general merchandise under a single roof, pioneered by Grand Union through its Grand-Way Discount Centers, is now an established technique in American retailing. Among major food chains, our company is a recognized leader in the discount field. We intend to maintain this position by continuing to develop Grand-Way Discount Centers in new locations and by converting supermarkets where this seems feasible.

The twenty-first Grand-Way was opened in Manchester, Connecticut, on March 5, 1962, just two days after the close of the 1961 fiscal year. Originally a Grand Union supermarket, the store was expanded to accommodate thousands of items of general merchandise.

We are highly optimistic about this expansion technique, which permits Grand-Way development at considerably lowered investment cost in areas where Grand Union is already operating successfully.

The Grand-Way Division has grown tremendously since its founding in 1956. Headquarters operations were transferred to new quarters in Paramus, New Jersey, in February of this year. Concentration of Grand-Way administrative, buying, advertising, warehousing and store supervisory personnel in a modern 84,000 square foot Headquarters and Distribution Center building means more efficient operation and provides the physical plant needed for future expansion.

GRAND UNION ENTERS INCENTIVE FIELD

A major development by Grand Union during the year was the formation of Performance Incentives Corporation, a coast-to-coast sales and safety incentive operation with virtually unlimited prospects for expansion.

Grand Union is associated in the new undertaking with Premium Corporation of America, Minneapolis, Minnesota, one of the nation's largest distributors of premium merchandise.

William H. Preis, Grand Union Vice President and President of the company's Stop and Save Trading Stamp Corporation, which distributes *Triple-S* Blue Stamps, is President of the new corporation.

Performance Incentives Corporation, or P I C, puts Triple-S experience to work for firms conducting incentive award campaigns for salesmen and other employees. P I C is now operating in major cities across the country in the development of this fast-growing service industry.

TRIPLE-S STAMP COMPANY EXPANDS ACTIVITIES

The past year showed a dramatic increase in trading stamp use. More and more food chains have become convinced of the sound promotional value of distributing stamps to customers.

Our wholly-owned subsidiary, the Stop and Save Trading Stamp Corporation, which distributes *Triple-S* Blue Stamps, had its most successful year to date. Redemptions of filled books were up by 13.5%. The number of retail outlets distributing *Triple-S* Stamps rose to the greatest number yet recorded. Two more Redemption Centers were opened, bringing the total to 50. Seven others were renovated or moved to larger quarters. Three more Redemption Centers will be opened in the near future.

SHOPPING CENTER AFFILIATE HAS SUCCESSFUL YEAR

Eastern Shopping Centers, Inc., Grand Union's shopping center affiliate, reported net income of $90,669 for the year ended December 31, 1961, compared with $53,939 in 1960. This is the third consecutive year in which the firm, founded in 1956, has operated at a profit.

During the year, Eastern completed site work and began construction at the 30-acre Vestal Plaza, near Binghamton, New York. Construction was also completed at Parkwood Plaza, Orlando, Florida, a 30-acre center with 24 stores; and construction was started at Sarasota Plaza, Sarasota, Florida. Eastern has a 50% interest in the Orlando and Sarasota developments. As construction and leasing agent, Eastern is also developing a new shopping center in Naples, Florida.

Eastern now has six shopping centers in operation, four under construction and has three additional sites ready for development. The sound, energetic growth of Eastern has established it as one of the country's leaders in shopping center development.

FEDERAL TRADE COMMISSION CHARGE DENIED

In a complaint filed in January of 1962, the Federal Trade Commission charged that Grand Union had violated the Cellar-Kefauver anti-merger law, Section 7 of the amended Clayton Act, through the acquisition more than three years ago of 41 Empire stores in upstate New York and 28 Sunrise stores on Long Island. It was alleged by the FTC that the acquisitions tended to create a monopoly in retail food sales for Grand Union in these areas and substantially to lessen competition.

A general denial of the charges has been entered by Grand Union.

In requesting dismissal of the proceedings, it was pointed out that since the acquisitions there has been no lessening of the vigorous competition in the areas involved, that the transactions did not have the anti-competitive effects alleged and that the divestiture sought in the proposed order would not further the purposes of the Clayton Act or the public interest.

We believe that the FTC complaint was completely unwarranted. It is being contested with every resource at our command and we are confident that the Grand Union position will ultimately be upheld.

CONTINUED PROGRESS SEEN IN 90th YEAR

Grand Union's 90th year holds every promise of being one of the best in the company's history. We are confident that sales and earnings in 1962 will be consistent with such optimism.

Imaginative planning has guided our policy to date. It will continue to do so in the future. We will remain alert to shifting patterns of population, production and consumption, ready to adjust our efforts to take full advantage of every opportunity offered for sound, vigorous growth.

The mainstream of that growth will consist of modern, well-located Grand Union supermarkets and Grand-Way Discount Centers. Through these two different, yet complementary, types of retail outlets, our company is prepared to meet growing consumer needs for food and virtually every other household necessity. We can meet them efficiently and with fully competitive prices wherever they exist, in the city, the suburbs and in rural communities.

In diversity, too, there is strength. Grand Union is diversified through its interest in a shopping center affiliate, trading stamp subsidiary and, most recently, through its move into the incentive field.

Continued physical expansion alone is not enough to insure success in the highly competitive field of retailing. Means to offset the constantly increasing costs of doing business are being sought by Grand Union with ever-growing vigor. This is being done through continuous research and experimentation and by thorough exploitation of every potential for increased sales and control of expenses.

Finally, on behalf of the officers and directors of the Company, I should like to express sincere gratitude to Grand Union's more than 17,000 employees. Their devotion to our common goals has been inspiring. It is our chief source of confidence for greater achievement in 1962.

Thomas C. Butler

President

April 20, 1962

THE GRAND UNION COMPA

Consolidated

ASSETS

	MAR. 3, 1962	FEB. 25, 1961
Current assets:		
Cash	$ 13,616,101	$ 12,109,188
Temporary cash investments, at cost	8,398,725	4,595,430
Accounts receivable, less allowance for losses	3,009,776	3,476,555
Notes receivable	214,500	3,244,500
Properties to be sold and leased back	—	305,000
Inventories, at the lower of cost or market (Note 1)	52,043,372	50,574,536
Total current assets	77,282,474	74,305,209
Investment in affiliated companies, at cost (Note 2)	2,859,235	2,666,666
Fixed assets, at cost less allowances for depreciation and amortization (1962, $28,622,864; 1961, $24,378,444):		
Land	3,706,571	3,400,655
Fixtures and equipment	36,504,929	37,140,789
Leasehold improvements and leaseholds	11,770,448	11,433,187
Other	1,654,570	1,655,682
Operating and construction supplies	1,176,448	1,039,598
Other assets and deferred charges	3,397,014	2,688,813
Cost in excess of amounts of net assets at dates of acquisition	7,455,307	7,461,224
	$145,806,996	$141,791,823

The accompanying notes are an integral part of these statements.

Balance Sheets

LIABILITIES

	MAR. 3, 1962	FEB. 25, 1961
Current liabilities:		
Promissory notes due within one year	$ 1,250,000	$ 2,832,500
Accounts payable and accrued liabilities	32,248,697	33,325,151
United States and Canadian income taxes	5,573,534	3,666,440
Total current liabilities	39,072,231	39,824,091
Promissory notes payable after one year in varying amounts annually through 1973	14,687,500	15,937,500
4⅛% Subordinated debentures, due 1978 (Note 3)	9,873,300	10,301,700
Liability for unredeemed trading stamps, less amount included in current accrued liabilities (1962, $4,353,951; 1961, $4,205,311)	1,450,000	1,400,000
Deferred United States income taxes	2,722,575	1,902,057
Other noncurrent liabilities and reserves	1,614,980	2,117,759
	$ 69,420,586	$ 71,483,107

CAPITAL

	MAR. 3, 1962	FEB. 25, 1961
4½% Cumulative preferred stock, $50 par value, callable at $52 per share; authorized 116,000 shares, issued 115,529 shares	$ 5,776,450	$ 5,776,450
Common stock, $5 par value, authorized 6,000,000 shares, issued at March 3, 1962, 4,594,637 shares (Notes 3 and 5)	22,973,185	21,861,760
Capital surplus, as annexed	40,884,992	35,784,274
Retained earnings, as annexed (Note 4)	6,977,057	7,111,283
	76,611,684	70,533,767
Less, Treasury stock at cost (at March 3, 1962, 2,773 common shares, $29,352; 4,543 preferred shares, $195,922)	225,274	225,051
	$ 76,386,410	$ 70,308,716
	$145,806,996	$141,791,823

The accompanying notes are an integral part of these statements.

Consolidated Statements

INCOME AND RETAINED EARNINGS

	FIFTY-THREE WEEKS ENDED MAR. 3, 1962	FIFTY-TWO WEEKS ENDED FEB. 25, 1961
NET SALES	$640,621,586	$604,273,503
Cost of sales	506,073,808	480,167,157
Gross profit	$134,547,778	$124,106,346
Operating and general expenses:		
Salaries and bonuses to employees in the sales department	$ 54,864,946	$ 50,284,590
Other selling, administrative and general expenses	64,442,221	58,658,954
	$119,307,167	$108,943,544
	$ 15,240,611	$ 15,162,802
Other deductions, principally interest expense, net	658,104	691,904
Income before provision for income taxes	14,582,507	14,470,898
Provision for United States and Canadian income taxes	7,430,000	7,380,000
NET INCOME	7,152,507	7,090,898
Retained earnings, beginning of period	7,111,283	9,040,211
	14,263,790	16,131,109
Less Dividends:		
On common stock:		
In cash	2,705,529	2,576,599
In common stock, based on market price	4,331,580	6,193,530
On 4½% cumulative preferred stock, in cash	249,624	249,697
Retained earnings, end of period (Note 4)	$ 6,977,057	$ 7,111,283

CAPITAL SURPLUS

Balance, beginning of period	$ 35,784,274	$ 29,988,489
Add:		
Excess of retained earnings capitalized in connection with stock dividends over par value of shares issued	3,675,280	5,161,275
Excess of amounts received over par value of shares of common stock issued under employees' stock option plans (Note 5)	1,081,027	627,589
Excess of principal amount of debentures converted into common stock over par value of shares issued (Note 3)	344,411	6,921
Balance, end of period	$ 40,884,992	$ 35,784,274

The accompanying notes are an integral part of these statements.

Ten-Year Comparisons

RELATING TO OPERATIONS

YEAR	NET SALES	EARNINGS BEFORE TAXES ON INCOME	U.S. AND CANADIAN INCOME TAXES	NET EARNINGS	EARNINGS PER COMMON SHARE*
1961	$640,621,586	$14,582,507	$7,430,000	$7,152,507	$1.51
1960	604,273,503	14,470,898	7,380,000	7,090,898	1.53
1959	603,468,099	15,154,045	7,800,000	7,354,045	1.61
1958	503,712,887	13,096,522	6,650,000	6,446,522	1.51
1957	427,871,082	11,583,365	5,770,000	5,813,365	1.49
1956	374,155,488	10,049,315	5,000,000	5,049,315	1.34
1955	283,003,166	7,284,125	3,700,000	3,584,125	1.01
1954	219,452,502	5,622,273	2,750,000	2,872,273	.91
1953	201,793,098	4,402,755	2,075,000	2,327,755	.74
1952	184,056,855	3,051,276	1,325,000	1,726,276	.53

* Based on the average number of shares outstanding during the respective periods adjusted for (a) subsequent stock dividends on common stock which were paid at the rate of 5% during each of the years 1953, 1954, 1956, 1957, 1958 and 1960, at the rate of 4% during the year 1955 and at the rate of 3% during 1959 and 1961, and (b) the two-for-one split effective May 26, 1955, and the three-for-two split effective June 15, 1959. Earnings per share are stated after dividends paid on the 4½% cumulative preferred stock.

NOTES TO FINANCIAL STATEMENTS

1 Cost of inventories is determined as follows: at warehouses, "average" or "first-in, first-out"; at retail outlets, "retail method."

2 The consolidated financial statements include the accounts of all wholly-owned subsidiaries. At March 3, 1962, investment in affiliated companies represented approximately 32% and 51% respectively of the outstanding common stock of Eastern Shopping Centers, Inc. and Performance Incentives Corporation. Eastern acquires, develops, and operates shopping centers while PIC offers employee incentive plans for business organizations. The company's equity in the net assets of these affiliated companies is approximately equivalent to the investment shown on the balance sheet.

3 The 4⅛% debentures outstanding at March 3, 1962 are convertible into common stock on the basis of $27.52 principal amount of debentures for each share of stock. The conversion price is subject to certain adjustments as specified in the indenture.

4 The note agreements and the 4⅛% debenture indenture contain provisions as to the maintenance of working capital and payment of cash dividends. The most restrictive of these provides that consolidated working capital may not be less than $14,500,000 and that payments for net acquisitions of the company's stocks and for cash dividends will be limited in the aggregate to 75% of the consolidated net earnings after March 2, 1957. At March 3, 1962, 75% of such consolidated net earnings exceeded such payments by approximately $13,000,000.

5 The company, under employees' restricted stock option plans, has granted options to certain officers and employees to purchase shares of common stock at 95% of market price on the dates the options were granted. Options granted are exercisable at various dates to December 31, 1970. A summary of transactions in shares for the current fiscal period with respect to stock options under the plans follows:

Options outstanding, February 25, 1961	227,905
Options granted at $29.81 per share	216,770
Shares added to reflect 3% stock dividend	6,207
	450,882
Options exercised, cancelled or expired	83,585
Options outstanding, March 3, 1962 (at prices from $17.13 to $29.81 per share)	367,297

At March 3, 1962, there were 66,450 additional shares available for option. The right to grant such options will expire on December 31, 1966.

6 The companies have 472 leases on store, warehouse and other properties expiring after February 27, 1965. The minimum annual rentals on such leases, not including real estate taxes or other expenses payable under the terms of certain of the leases, aggregate approximately $12,106,000. Of the aggregate annual rentals, $7,830,000 applies to leases expiring prior to February 26, 1977, and $4,276,000 applies to leases expiring thereafter but prior to 1992. In addition, the company is contingently liable on 38 leases applicable principally to stores sold, expiring after February 27, 1965, but prior to 1984, and having minimum annual rentals aggregating $1,000,000.

7 Costs and expenses include depreciation and amortization of $6,163,079 and $5,736,556 for the periods ended in 1962 and 1961, respectively.

THE GRAND UNION COMPANY

OFFICERS

THOMAS C. BUTLER, President and Chief Executive Officer

HUGH J. DAVERN, Senior Vice President

EMERSON E. BRIGHTMAN, Vice President

BERNARD A. LUBECK, Vice President

LLOYD W. MOSELEY, Vice President

WILLIAM H. PREIS, Vice President

CHARLES G. RODMAN, Vice President

BERTRAM D. SHEPARD, Vice President and Secretary

EARL R. SILVERS, JR., Vice President

CHARLES H. HAIGHT, Treasurer

DIRECTORS

JOHN E. RAASCH, Chairman of the Board

LOUIS A. GREEN, Chairman of the Executive Committee

*THOMAS C. BUTLER
President
The Grand Union Company

*HUGH J. DAVERN
Senior Vice President
The Grand Union Company

WILLIAM F. DEMPSEY
Former Senior Vice President
The Grand Union Company

RAYMOND H. FOGLER
Former President
W. T. Grant Company

*LOUIS A. GREEN
Partner, Stryker & Brown
Securities, New York City

IRVING KAHN
Partner, Abraham & Company
Securities, New York City

WILLIAM I. MYERS
Former Dean, College of Agriculture
Cornell University, Ithaca, New York

*JOHN E. RAASCH
Former President & Chairman of the
Board of Directors, John Wanamaker

FRANCIS F. RANDOLPH
Partner, J. & W. Seligman & Co.
Securities, New York City

*THOMAS J. SHANAHAN
President, Federation Bank &
Trust Company, New York City

*
Denotes members of the
Executive Committee of the
Board of Directors

TRANSFER AGENT

THE CHASE MANHATTAN BANK
1 Chase Manhattan Plaza, New York, N. Y.

REGISTRAR

CHEMICAL BANK NEW YORK TRUST COMPANY
20 Pine St., New York, N. Y.

Auditors' Report

TO THE STOCKHOLDERS,

The Grand Union Company, East Paterson, New Jersey.

We have examined the consolidated balance sheets of The Grand Union Company and its Subsidiaries as of March 3, 1962 and February 25, 1961, and the related statements of income and retained earnings and of capital surplus for the fifty-three and fifty-two week periods then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We were furnished with financial statements of certain subsidiaries for the periods ended March 3, 1962 and February 25, 1961, together with the reports thereon of other accountants.

In our opinion, based upon our examination and upon the above mentioned reports of other accountants, the accompanying balance sheets and related statements of income and retained earnings and of capital surplus (pages 4 to 7) present fairly the consolidated financial position of The Grand Union Company and its Subsidiaries at March 3, 1962 and February 25, 1961, and the consolidated results of their operations for the fifty-three and fifty-two week periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

New York, April 16, 1962.

Lybrand, Ross Bros. & Montgomery

GRAND UNION SUPERMARKETS

CONNECTICUT	30
FLORIDA	17
MARYLAND	16
MASSACHUSETTS	3
NEW HAMPSHIRE	15
NEW JERSEY	55
NEW YORK	271
PENNSYLVANIA	4
VERMONT	20
VIRGINIA	12
WASHINGTON, D. C.	4
PUERTO RICO	8
TOTAL	455*

THE GRAND UNION COMPANY

100 Broadway *East Paterson, N. J.*

GRAND-WAY DISCOUNT CENTERS

CONNECTICUT Danbury, Manchester, Stratford, Waterbury	4
FLORIDA Fort Lauderdale, Miami (2), Orlando, St. Petersburg (2), Tampa, West Hollywood	8
NEW JERSEY East Brunswick, Keansburg, Paramus	3
NEW YORK Albany, Cortland, Nanuet, Poughkeepsie, Vestal	5
VERMONT South Burlington	1
TOTAL	21*

* As of April 20, 1962